



# Monthly Economic Update

## January 2003



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This report is a monthly update to the Quarterly Economic Indicators Report, both of which are available on the internet @ <http://www.co.mo.md.us/services/finance> For questions, please call (240) 777-8866.

➤ **Economic Conditions.** According to the most recent data, the U.S. economy continues to rebound from the recession of 2001 but experiences erratic growth in output and declines in payroll employment. The overall economy grew a respectable 2.4% during 2002 but based on preliminary data slowed to a crawl during the fourth quarter of 2002 with only 0.7% growth. Much of the growth during 2002 was due to defense spending, inventory buildup, homebuilding, and auto sales.

The economy in 2003 will depend in large measure on whether the consumer continues to spend and business investment rebounds from two years of decline. Consumer spending remains uncertain and is attributable to weak consumer confidence which declined in January to its lowest level in nearly a decade, while business spending remains problematic due to low profits and excess capacity.

On a positive note, the growth in homebuilding coupled with low mortgage rates improved the affordability of housing nationwide. According to the National Association of Realtors, a family with an income of \$53,000 can afford a home costing \$230,000, and first-time homebuyers with incomes at \$37,000 can afford a home costing \$111,000.

Uncertainty about corporate earnings and consumer confidence continued to have a significant effect on the stock market. The initial January bounce that occurred during the first two weeks of the month fizzled with the S&P 500 declining 2.7% for the month. The anxiety over war with Iraq and the domestic problems in Venezuela pushed oil prices to \$33 per barrel, an increase of \$9 since November 2002.

➤ **Real Estate.** Based on preliminary data, growth in the County's housing market was weak in 2002 with sales declining 1% after a strong 5% growth rate in 2001, while construction decreased 4% during 2002 compared to an increase of 33% during the recession year of 2001. The decline in sales and construction was offset by rising home prices. Average prices increased 17% in December and 16% for the year and double the

increase in 2001 (8%). The recent dramatic increase in home prices of 25% in the County over the past two years has been more than offset by 29% decline in mortgage rates. The net result is that the cost of financing a home declined over that time period for new home owners.

➤ **Construction.** While construction of homes declined in 2002, the construction of non-residential property, particularly office space, continued to grow dramatically. Following a healthy increase in 2001, construction accelerated to grow 26% in 2002. The dramatic rise in non-residential construction added an additional 1.7 million ft<sup>2</sup> of office space to the existing vacancy space of 3.1 million ft<sup>2</sup>. Such an increase had exacerbated the vacancy rate in the County such that it increased from 9% in December 2001 to 10% in December 2002. Such excess capacity may have contributed to a dramatic 12% decline in building permits during 2002 for new construction in the County suggesting that non-residential construction will not experience a dramatic growth during 2003.

➤ **Inflation and Gas Prices.** The inflation rate of 2.3% for the region was higher in 2002 compared to the nation's rate of 1.6%. Excluding food and energy prices, the inflation rate of 3.0% was above the national level for the second consecutive year. Housing (5.1%) and medical care (3.7%) contributed to the increase. With the price of oil increasing dramatically over the past two months, the price of gasoline will continue to increase in the region in the near term. The average price of regular gasoline steadily increased to \$1.56 per gallon during the last week of January, an increase of 4 cents from the previous week and 43 cents from the same period last year. The price of diesel fuel also increased to \$1.66 per gallon during the same period, an increase of 5 cents from the previous week and 40-1/2 cents from last year. Home heating fuel in the State increased from \$1.36 per gallon in mid-November to \$1.61 per gallon by the end of January, an increase of almost 25 cents per gallon.

SELECTED ECONOMIC INDICATORS	Reporting Period	Current Period	Prior Year's Period	Year To-Date		2001
				2002	2001	
Leading Indicators						
National	Decemb er	0.1%		1.7%		2.5%
Washington MSA	November	0.8%		0.6%		-0.9%
Consumer Confidence Index						
National	December	-5.4%		-15.1%		-26.4%
South Atlantic Region	December	-4.9%		-7.9%		-23.9%
Consumer Price Index						
All Items						
National	December	2.4%		1.6%		2.8%
Washington - Baltimore CMSA	November	2.8%		2.3%		2.7%
Core CPI						
National	December	1.9%		2.4%		2.6%
Washington - Baltimore CMSA	November	2.4%		3.0%		3.0%
Retail Trade						
National (sales)	December	4.4%		3.4%		3.7%
Maryland (tax)	November	2.3%		1.7%		3.0%
Montgomery County (tax)	November	2.3%		1.0%		3.8%
Employment						
National	December	134,232,000	134,235,000	134,269,000	135,073,000	135,073,000
- Percent Change		0.0%		-0.6%		-0.1%
Washington PMSA (at place)	November	2,798,600	2,819,700	2,787,800	2,791,700	2,831,800
- Percent Change		-0.7%		-0.1%		2.8%
Montgomery County (resident)	November	490,666	478,613	487,216	477,939	477,701
- Percent Change		2.5%		1.9%		0.7%
Montgomery County (payroll)	June	457,946	456,983	450,820	448,854	447,744
- Percent Change		0.2%		0.4%		4.9%
Unemployment						
National	December	5.7%	5.4%	5.8%	4.8%	4.8%
Maryland	November	3.9%	4.4%	4.5%	4.1%	4.1%
Washington PMSA	November	3.2%	3.8%	3.7%	3.1%	3.1%
Montgomery County	November	2.4%	2.9%	2.9%	2.3%	2.3%
Construction						
Project Cost - Montgomery County						
Total (\$ thousand)	December	\$120,995	\$71,617	\$1,595,801	\$1,457,674	\$1,457,674
- Percent Change		68.9%		9.5%		24.3%
Residential (\$ thousand)	December	\$36,093	\$35,876	\$744,066	\$776,526	\$776,526
- Percent Change		0.6%		-4.2%		33.3%
Non-Residential (\$ thousand)	December	\$84,902	\$35,741	\$851,735	\$681,148	\$681,148
- Percent Change		137.5%		25.0%		15.4%
Building Permits (Residential)						
National	December	132,716	109,792	1,720,040	1,610,766	1,610,766
- Percent Change		20.9%		6.8%		1.2%
Maryland	December	2,023	1,867	28,112	28,412	28,412
- Percent Change		8.4%		-1.1%		-6.4%
Montgomery County	December	226	390	4,451	5,091	5,091
- Percent Change		-42.1%		-12.6%		13.8%
Building Permits (Non-Residential)						
Montgomery County	December	123	148	1,858	2,102	2,102
- Percent Change		-16.9%		-11.6%		23.9%
Real Estate						
National						
Sales	December	5,860,000	5,200,000	5,563,000	5,296,000	5,296,000
- Percent Change		12.7%		5.0%		2.8%
Median Price	December	\$164,000	\$153,100	\$158,300	\$147,800	\$147,800
- Percent Change		7.1%		7.1%		6.3%
Montgomery County						
Sales	December	1,349	1,216	15,372	15,489	15,489
- Percent Change		10.9%		-0.8%		4.8%
Average Price	December	\$343,384	\$294,118	\$317,970	\$274,522	\$274,522
- Percent Change		16.8%		15.8%		8.1%
Median Price	December	\$274,000	\$231,000	\$251,329	\$215,000	\$215,000
- Percent Change		18.6%		16.9%		13.2%